

**CALIFORNIA STATE PRISON – SACRAMENTO
CALIFORNIA CORRECTIONAL
HEALTH CARE SERVICES**

Review Report

PAYROLL PROCESS REVIEW

July 1, 2010, through June 30, 2013



JOHN CHIANG
California State Controller

August 2014



JOHN CHIANG
California State Controller

August 20, 2014

Jeff Macomber, Warden
California State Prison, Sacramento
P.O. Box 290002
Represa, CA 95671

Eureka C. Daye, Ph.D., MPH, MA, CCHP
Regional Health Care Executive, Region 1
Health Care Operations
California Correctional Health Care Services
P.O. Box 588500
Elk Grove, CA 95758

Dear Mr. Macomber and Dr. Daye:

The State Controller's Office has reviewed the California State Prison – Sacramento (CSP-Sacramento) and California Correctional Health Care Services at CSP-Sacramento (CCHCS-Sacramento) (herein collectively known as "Prison Agencies") payroll process for the period of July 1, 2010, through June 30, 2013. The Prison Agencies' management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in the Prison Agencies' internal control over their payroll process resulting in the following improper payments and practices:

- The Prison Agencies inappropriately bought back approximately \$40,574 in vacation and personal leave credits from 10 employees, in violation of collective bargaining agreements and state law, or without authorization from the California Department of Human Resources (CalHR). The Prison Agencies also bought back \$7,892 in holiday credits but they could not provide documentation to support that these buy-backs were executed with management's authorization. Personnel office staff circumvented the state payroll system's internal controls by processing these leave buy-back transactions as overtime payments. However, the employees' leave balances were correctly adjusted to reflect the number of leave credits that were bought back.
- The Prison Agencies made improper payments for institutional worker supervision pay (IWSP) totaling approximately \$64,635 to employees who did not fulfill the requirements to receive the pay under collective bargaining agreements and state policy. In addition, 44 (or 88%) of the 50 employees who received IWSP during the review period lacked sufficient documentation to support initial request and appropriate authorization from management to receive the pay.

- The Prison Agencies lacked proper documentation to support 95 (or 77%) of the 123 employees who received out-of-class compensation during the review period. Further, 16 employees exceeded limits for out-of-class assignments set by collective bargaining agreements and state policy, resulting in a total overpayment of approximately \$17,200. In addition, two managerial employees received approximately \$2,600 in out-of-class compensation prior to the 91st day of their assignments, in violation of state policy.
- CSP-Sacramento made payments to 6 (or 17%) of the 35 employees reviewed for uniform allowance that exceeded the amount set by the collective bargaining agreement, resulting in a total overpayment of \$2,960.
- The Prison Agencies paid approximately \$11,142 for other types of premium pay to 6 (or 40%) of the 15 employees reviewed who lacked proper documentation or were not eligible to receive the pay.
- Personnel office staff misstated the holiday credits for 10 (or 53%) of the 19 employees reviewed, resulting in overstatement in leave balances by approximately \$6,402.

An evaluation of an entity's payroll process may identify deficiencies in its internal control over such process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts on a timely basis.

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, the Prison Agencies have a combination of deficiencies in internal control over payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. For instance, we found that the Prison Agencies lacked adequate internal controls to ensure that the personnel office staff processes only properly authorized leave buy-back payments that comply with collective bargaining agreements and state law. We also found that the Prison Agencies did not adhere to existing policies and procedures related to premium pay and holiday credit transactions. These deficiencies were aggravated by poor oversight of payroll transactions and personnel office staff's lack of proper understanding of the requirements under collective bargaining agreements and state laws and policies.

August 20, 2014

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

Attachment

cc: Jeffrey A. Beard, Ph.D., Secretary
California Department of Corrections and Rehabilitation
Martin Hoshino, Undersecretary, Operations
California Department of Corrections and Rehabilitation
Diana Toche, Undersecretary, Health Care Services and
Undersecretary, Administration & Offender Services
California Department of Corrections and Rehabilitation
Michael Stainer, Director, Division of Adult Institutions
California Department of Corrections and Rehabilitation
Kelly Harrington, Deputy Director, Division of Adult Institutions
California Department of Corrections and Rehabilitation
Ralph Diaz, Associate Director, Division of Adult Institutions
California Department of Corrections and Rehabilitation
Bryan Beyer, Director, Division of Internal Oversight and Research
California Department of Corrections and Rehabilitation
Shama Chaiken, Chief Executive Officer
California State Prison, Sacramento
Lisa Lassetter, Deputy Director, Human Resources
California Department of Corrections and Rehabilitation
Lori Zamora, Deputy Director, Office of Audits and Court Compliance
California Department of Corrections and Rehabilitation
Scott R. Carney, Director, Division of Administrative Services
California Department of Corrections and Rehabilitation
Linda Wong, Manager, Office of Audits and Court Compliance
California Department of Corrections and Rehabilitation

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Review Report

Summary

The State Controller's Office (SCO) reviewed the California State Prison – Sacramento (CSP-Sacramento) and California Correctional Health Care Services at CSP-Sacramento (CCHCS-Sacramento) (herein collectively known as "Prison Agencies") payroll process for the period of July 1, 2010, through June 30, 2013. The Prison Agencies' management is responsible for maintaining a system of internal control over the payroll process within its organization, and for ensuring compliance with requirements under state laws and regulations regarding payroll and payroll-related expenditures.

Our limited review identified material weaknesses in the Prison Agencies' internal control over their payroll process resulting in the following improper payments and practices:

- The Prison Agencies inappropriately bought back approximately \$40,574 in vacation and personal leave credits from 10 employees, in violation of collective bargaining agreements and state law, or without authorization from the California Department of Human Resources (CalHR). The Prison Agencies also bought back \$7,892 in holiday credits but they could not provide documentation to support that these buy-backs were executed with management's authorization. Personnel office staff circumvented the state payroll system's internal controls by processing these leave buy-back transactions as overtime payments. However, the employees' leave balances were correctly adjusted to reflect the number of leave credits that were bought back.
- The Prison Agencies made improper payments for institutional worker supervision pay (IWSP) totaling approximately \$64,635 to employees who did not fulfill the requirements to receive the pay under collective bargaining agreements and state policy. In addition, 44 (or 88%) of the 50 employees who received IWSP during the review period lacked sufficient documentation to support initial request and appropriate authorization from management to receive the pay.
- The Prison Agencies lacked proper documentation to support 95 (or 77%) of the 123 employees who received out-of-class compensation during the review period. Further, 16 employees exceeded limits for out-of-class assignments set by collective bargaining agreements and state policy, resulting in a total overpayment of approximately \$17,200. In addition, two managerial employees received approximately \$2,600 in out-of-class compensation prior to the 91st day of their assignments, in violation of state policy.
- CSP-Sacramento made payments to 6 (or 17%) of the 35 employees reviewed for uniform allowance that exceeded the amount set by the collective bargaining agreement, resulting in a total overpayment of \$2,960.

- The Prison Agencies paid approximately \$11,142 for other types of premium pay to 6 (or 40%) of the 15 employees reviewed who lacked proper documentation or were not eligible to receive the pay.
- Personnel office staff misstated the holiday credits for 10 (or 53%) of the 19 employees reviewed, resulting in overstatement in leave balances by approximately \$6,402.

An evaluation of an entity's payroll process may identify deficiencies in its internal control over such process. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in financial information, impairments of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts on a timely basis.

Control deficiencies, either individually or in combination with other control deficiencies, may be evaluated as significant deficiencies or material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis.

Based on our review, the Prison Agencies have a combination of deficiencies in internal control over payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. For instance, we found that the Prison Agencies lacked adequate internal controls to ensure that the personnel office staff processes only properly authorized leave buy-back payments that comply with collective bargaining agreements and state law. We also found that the Prison Agencies did not adhere to existing policies and procedures related to premium pay and holiday credit transactions. These deficiencies were aggravated by poor oversight of payroll transactions and personnel office staff's lack of proper understanding of the requirements under collective bargaining agreements and state laws and policies.

A summary of our review results is included in Table 1.

Table 1 – Summary of Review Results

Finding Number	Issues	Selections Reviewed			Selections with Issues			
		Number of Selections Reviewed	Selection Unit	\$ Amount of Selections Reviewed	Number of Selections with Issues	Issues as a Percentage of Selections Reviewed	Approximate \$ Amount	\$ Amount of Issues as a Percentage of \$ Amount of Selections Reviewed
1	Inappropriate leave buy-backs	39	Payment Transaction	\$ 201,663	14	36%	\$ 48,466	24%
2	Improper IWSP payments	376	Payment Transaction	85,995	292	78%	64,635	75%
2	Lack of proper documentation to support initial IWSP requests and appropriate authorization to receive IWSP	50	Employee	See above.	44	88%	See above.	--
3	Lack of proper documentation to support out-of-class compensation	123	Employee	See below.	95	77%	See below.	--
3	Overpayments for out-of-class assignments that exceeded limits set by collective bargaining agreements and state policy	88	Employee	95,782	16	18%	17,200	18%
3	Improper out-of-class compensation to managerial employees prior to the 91 st day of their assignments	6	Employee	34,318	2	33%	2,600	8%
4	Overpayments for uniform allowance	35	Employee	22,976	6	17%	2,960	13%
5	Payments for premium pay to employees who lacked proper documentation or were not eligible to receive the pay	15	Employee	69,672	6	40%	11,142	16%
6	Overstatements of holiday credit balances	19	Employee	15,907	10	53%	6,402	40%
Total				<u>\$ 526,313</u>			<u>\$ 153,405</u>	29%

Background

In 1979, the State of California adopted collective bargaining for state employees. This adoption of collective bargaining created a significant workload increase for the SCO's Personnel and Payroll Services Division (PPSD) as PPCS was the State's centralized payroll processing center for all payroll related transactions. As such, PPCS decentralized the processing of payroll which allowed state agencies and departments to process their own payroll related transactions. In addition, the SCO's Division of Audits was authorized a limited number of new positions to conduct periodic reviews of this now decentralized payroll processing at state agencies and departments. Due to the budget constraints in the late 1980s, these positions were eliminated and these periodic reviews were discontinued.

In March and May of 2012, an internal audit of the California Department of Parks and Recreation (DPR), as well as an investigation by the California Attorney General's Office, disclosed a vacation buy-back program that was instituted at DPR without management's authorization or the approval of the California Department of Human Resources (CalHR), as required by state law. This event renewed interest in reinstituting state agency and department payroll reviews by the SCO.

In 2013, the SCO submitted a Budget Change Proposal, that was approved by the Legislature, to reinstate these payroll reviews to gain assurance that state agencies and departments were: maintaining an adequate internal control structure over the payroll function; providing proper oversight over their decentralized payroll processing; and complying with various state laws and regulations regarding payroll processing and related transactions.

Review Authority

Authority for this review is provided by the California Government Code section 12476, which states, “The Controller may audit the uniform state pay roll system, the State Pay Roll Revolving Fund, and related records of state agencies within the uniform state pay roll system, in such manner as the Controller may determine.” In addition, Government Code section 12410 stipulates that “The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.”

Objectives, Scope, and Methodology

The SCO reviewed the Prison Agencies payroll process and transactions for the period of July 1, 2010, through June 30, 2013. We conducted our onsite fieldwork between August 28, 2013 and November 4, 2013.

The objectives of this review were to determine whether:

- Payroll and payroll-related disbursements were accurate and in accordance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- The Prison Agencies had established adequate internal control for payroll, to meet the following control objectives:
 - Payroll and payroll-related transactions are properly approved and certified by authorized personnel;
 - Only valid and authorized payroll and payroll-related transactions are processed;
 - Payroll and payroll-related transactions are accurate and properly recorded;
 - Payroll systems, records, and files are adequately safeguarded; and
 - State laws, regulations, policies, and procedures are complied with regarding payroll and payroll-related transactions.
- The Prison Agencies complied with existing controls as part of the ongoing management and monitoring of payroll and payroll-related expenditures.

- The Prison Agencies maintained accurate records of leave balances.
- Salary advances were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

To achieve our review objectives, we performed the following procedures:

- Reviewed state and Prison Agencies policies and procedures related to payroll process to understand the practice of processing various payroll and payroll-related transactions.
- Interviewed the Prison Agencies payroll personnel to understand the practice of processing various payroll and payroll-related transactions, determine their level of knowledge and ability relating to the payroll transaction processing, and obtain or confirm our understanding of existing internal control over the payroll process and systems.
- Selected for review transactions recorded in the State's payroll database based on risks factors and other criteria.
- Analyzed and tested transactions recorded in the State's payroll database and reviewed relevant files and records to determine the accuracy of payroll and payroll-related payments, accuracy of leave transactions, proper review and approval of transactions, and compliance with collective bargaining agreements and state laws, regulations, policies, and procedures.
- Reviewed salary advances to determine whether they were properly administered and recorded in accordance with state laws, regulations, policies, and procedures.

Conclusion

Our limited review identified material weaknesses in the Prison Agencies' internal control over their payroll process resulting in the following improper payments and practices:

- The Prison Agencies inappropriately bought back approximately \$40,574 in vacation and personal leave credits from 10 employees, in violation of collective bargaining agreements and state law, or without authorization from CalHR. The Prison Agencies also bought back \$7,892 in holiday credits but they could not provide documentation to support that these buy-backs were executed with management's authorization. Personnel office staff circumvented the state payroll system's internal controls by processing these leave buy-back transactions as overtime payments. However, the employees' leave balances were correctly adjusted to reflect the number of leave credits that were bought back.
- The Prison Agencies made improper payments for IWSP totaling approximately \$64,635 to employees who did not fulfill the requirements to receive the pay under collective bargaining agreements and state policy. In addition, 44 (or 88%) of the 50

employees who received IWSP during the review period lacked sufficient documentation to support initial request and appropriate authorization from management to receive the pay.

- The Prison Agencies lacked proper documentation to support 95 (or 77%) of the 123 employees who received out-of-class compensation during the review period. Further, 16 employees exceeded limits for out-of-class assignments set by collective bargaining agreements and state policy, resulting in a total overpayment of approximately \$17,200. In addition, two managerial employees received approximately \$2,600 in out-of-class compensation prior to the 91st day of their assignments, in violation of state policy.
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Based on our review, the Prison Agencies have a combination of deficiencies in internal control over payroll process such that there is a reasonable possibility that a material misstatement in financial information, impairment of effectiveness or efficiency of operations, or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected on a timely basis. For instance, we found that the Prison Agencies lacked adequate internal controls to ensure that the personnel office staff processes only properly authorized

leave buy-back payments that comply with collective bargaining agreements and state law. We also found that the Prison Agencies did not adhere to existing policies and procedures related to premium pay and holiday credit transactions. These deficiencies were aggravated by poor oversight of payroll transactions and personnel office staff's lack of proper understanding of the requirements under collective bargaining agreements and state laws and policies.

**Views of
Responsible
Officials**

We issued a draft review report on June 30, 2014. Jeff Macomber, Warden; and Eureka C. Daye, Ph.D., MPH, MA, CCHP, Regional Health Care Executive, responded by letters dated July 23, 2014 (Attachment A) and July 18, 2014 (Attachment B), agreeing with the review results. This final review report includes the responses of CSP-Sacramento and CCHCS.

Restricted Use

This report is solely for the information and use of the Prison Agencies and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 20, 2014

Findings and Recommendations

FINDING 1— The Prison Agencies inappropriately bought back leave credits

The California State Prison – Sacramento (CSP-Sacramento) and the California Correctional Health Care Services at CSP-Sacramento (CCHCS-Sacramento) (herein collectively known as “Prison Agencies”) inappropriately bought back approximately \$40,574 in vacation and personal leave credits from 10 represented employees, in violation of collective bargaining agreements and state law, or without authorization from the California Department of Human Resources (CalHR). In addition, the Prison Agencies bought back \$7,892 in holiday credits from five of the 10 employees but they could not provide documentation to support that these buy-backs were executed with management’s authorization. Personnel office staff circumvented the state payroll system’s internal controls by processing these leave buy-back transactions as overtime payments. However, the employees’ leave balances were correctly adjusted to reflect the number of leave credits that were bought back.

A leave-buy back occurs when an employee receives payment at the regular salary rate in exchange for accrued vacation, annual leave, personal leave, personal holiday, and/or holiday credits. Collective bargaining agreements and state law allow departments to buy-back employees’ unused leave they have accrued in certain circumstances.

Pursuant to California Government Code section 19839 and collective bargaining agreements, employees are entitled to receive cash for accrued vacation, annual leave, and personal leave credits when separating from state employment. In addition, collective bargaining agreements allow buy-back of unused personal leave credits at the discretion of the State. However, CalHR indicated that the last authorized leave buy-back was available to employees who are not covered by collective bargaining agreements, such as managers and supervisors, during the 2006-07 fiscal year.

Collective bargaining agreements also allow an employee to be paid for the unused holiday credits, at the discretion of the department head or designee. An employee is also entitled to receive cash for unused holiday credit upon separation from state employment.

Between July 2010 and June 2013, the Prison Agencies had more than 60,000 overtime payment transactions that were recorded in the state payroll system. Of these transactions, we selected 39 for review and found that 14 (or 36%) were improper payments to 10 CCHCS-Sacramento employees who were covered by collective bargaining agreements in exchange for their accrued vacation, personal leave, and holiday credits. These transactions occurred between September 2010 and October 2011.

As shown in Table 2, the 14 inappropriate buy-back transactions included payments for vacation and voluntary personal leave credits totaling approximately \$35,078 and \$5,496, respectively. The Prison Agencies provided documentation for six of the 14 buy-backs indicating

that the then-chief executive officer at CCHCS-Sacramento approved them. However, the conditions for these leave buy-backs did not meet the requirements under relevant collective bargaining agreements and state law. Payroll records indicate that the 10 employees did not separate from state service at the time of the buy-backs. The personal leave buy-back was also processed by personnel office staff without authorization from CalHR. The Prison Agencies allowed some of these unauthorized leave buy-backs for employees who made requests as a result of financial or family emergencies. Further, five of the 14 buy-back transactions also included payments for holiday credits totaling \$7,892. Although the relevant collective bargaining agreements allow the Prison Agencies to buy-back holiday credits, they could not provide documentation to support that these buy-backs were executed with management's authorization. Our review further revealed that personnel office staff keyed these transactions into the state payroll system as overtime payments, although the Prison Agencies were actually buying back leave credits. The State Controller's Office's *Payroll Procedures Manual* provides specific coding that state agencies should use when processing leave buy-back transactions. However, our review also found that the employees' leave balances were correctly adjusted in the leave accounting system to reflect the number of leave credits that were bought back. When we discussed this issue with the current management at the Prison Agencies, they could not provide an explanation for why these buy-backs were processed and paid. However, they agreed that these buy-backs were not authorized and should have not been processed and paid.

Table 2 – Inappropriate Leave Buy-Backs

Type of Leave	Number of Employees	Reporting Unit	Number of Transactions	Number of Hours	Amount Paid	Reasons Buy-Backs Were Inappropriate
Vacation	9	Medical (Plata)	13	1,381	\$ 35,078	Leave buy-backs did not meet the requirements under collective bargaining agreements and state law.
Voluntary Personal Leave Program	1	Mental Health	1	113	5,496	The relevant collective bargaining agreement allows buy-backs of unused personal leave credits at the discretion of the State. The Prison Agencies could not provide documentation to support their authority for this buy-back.
Holiday Credit	5 ^a	Medical (Plata)	5 ^b	245	7,892	The relevant collective bargaining agreements allow buy-back of holiday credits at the discretion of the department head or designee. However, the Prison Agencies could not provide documentation to support authorization for these buy-backs.
Total				<u>1,739</u>	<u>\$ 48,466</u>	

Source: Our analysis of data obtained from the state payroll system.

^a These employees also received payments for vacation or personal leave buy-back.

^b These transactions were processed together with vacation or personal leave buy-backs.

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls. However, our review of the unauthorized leave buy-backs revealed significant control deficiencies over the payroll process that leave the Prison Agencies at risk of additional unauthorized buy-backs if not mitigated. Specifically, we noted that:

- Personnel office staff circumvented the state payroll system's internal controls by keying leave buy-back transactions as overtime payments instead of keying them as leave buy-backs.
- The Prison Agencies lacked adequate internal controls to ensure that personnel office staff processes leave buy-back transactions in accordance with collective bargaining agreements and state law, including requiring personnel office staff to obtain documentation supporting the authority for any leave buy-back transactions that they process.
- CSP-Sacramento did not provide sufficient oversight over the personnel office staff's processing of leave buy-back transactions. For example, the personnel office staff keyed the leave buy-back transactions into the state payroll system without indication of review or monitoring by authorized individuals to ensure compliance with collective bargaining agreements and state law and policies.
- Personnel office staff did not have proper understanding of the requirements under collective bargaining agreements and state law regarding leave buy-backs. For example, the personnel office staff we interviewed stated that she was not aware of the collective bargaining agreement provisions specifying when state agencies are authorized to buy-back leave credits from employees.
- The Prison Agencies lacked adequate record-keeping procedures to provide effective accounting control over buy-back payments. They could not provide adequate documentation to support 11 of the 14 buy-back transactions.

Recommendation

To prevent unauthorized leave buy-back transactions from recurring, the Prison Agencies should do the following:

- Establish internal controls requiring the personnel office staff to obtain documentation from managers who request leave buy-back transactions. The documentation should specify the authority for the leave buy-back and include appropriate authorizing signatures.
- Provide adequate supervisory review to ensure that personnel office staff process only authorized and properly coded leave buy-back transactions.
- Provide training to managers, supervisors, and staff who might be involved in leave buy-back transactions to ensure that they understand the requirements under collective bargaining agreements and state law regarding leave buy-backs.

**FINDING 2—
The Prison Agencies
made improper
payments for
institutional worker
supervision pay**

For the period from July 2012 through May 2013, the Prison Agencies improperly paid a total of \$64,635 for institutional worker supervision pay (IWSP) to 36 employees who did not fulfill the requirements to receive the pay under collective bargaining agreements and state and Prison Agencies policies. In addition, 44 (or 88%) of the 50 employees who received IWSP between July 2010 and June 2013 lacked sufficient documentation to support initial IWSP requests and appropriate authorization as required by state and Prison Agencies policies. The Prison Agencies failed to implement adequate internal controls that would prevent such improper payments and practices.

292 (or 78%) of 376 IWSP payments reviewed did not meet requirements to receive the pay under collective bargaining agreements and state and Prison Agencies policies

Pursuant to collective bargaining agreements and the California Department of Human Resources' (CalHR) *California State Civil Service Pay Scales* section 14, Pay Differential 67, employees assigned to supervise inmates are eligible to receive IWSP, provided that the employees meet certain requirements. These requirements are included in the California Department of Corrections and Rehabilitation's

(CDCR) department-wide *Institutional Worker Supervision Pay Program Operational Procedure*, which states, in part:

Employees in rank and file classifications in bargaining units 01, 04, 15, 19 and excluded classifications as indicated in the IWSP Pay Differential 67 . . . are eligible to receive compensation if the following criteria are met:

- Employees must have regular, direct responsibility for work supervision, on-the-job training, and work performance evaluation of at least two inmates, youthful offenders, or resident workers who substantially replace civil service employees for a combined total of at least 173 hours per pay period
- Employees must be responsible for reviewing and signing the inmates' timesheets and providing the inmates' duty statements
- Employees must have a valid and approved medical clearance on file in accordance with PMPPM, Section 375 . . .
- The differential may also apply to employee having direct supervisory responsibility over incumbents who meet the conditions above. Supervisory employees must have a valid and approved Medical Examination Record in accordance with PMPPM, Section 375
- Employees who fail to meet the above criteria are not eligible for IWSP . . .

As summarized in Table 3, our review revealed that the Prison Agencies made 376 payments for IWSP to 40 employees for the period between July 2012 and May 2013. In 292 (or 78%) of the 376 payments, the Prison Agencies could not demonstrate that the employees met the requirements to receive IWSP. Specifically, in 262 payments totaling \$58,800, employees submitted no inmate work supervisor's time logs to

the personnel office to support that they had active supervision of the conduct and work of any inmates. The time log identifies each inmate and the number of hours that the inmate worked under the supervising employee. The *Institutional Worker Supervision Pay Program Operational Procedure* requires that inmate work supervisor's time log be completed and signed by the supervising employee and reviewed by employee's supervisor. Further, employees did not have monthly IWSP certification forms, or they had forms that were incomplete and unverified by the personnel office. The form is used to certify that the employee's supervisor reviewed the inmate work supervisor's time log and verified the employee's eligibility to receive IWSP. The *Institutional Worker Supervision Pay Program Operational Procedure* requires that the monthly IWSP certification form be completed and signed by the employee's supervisor and the employee. The procedure also requires that employees include the inmate work supervisor's time log and monthly IWSP certification form with the submission of their timesheets. The personnel office should review these documents to confirm that the employee meets the eligibility requirements to receive IWSP. In addition, in 30 payments totaling \$5,835, employees supervised only one inmate during the pay period, in violation of collective bargaining agreements and state policy. Overall, the Prison Agencies improperly paid \$64,635 to 36 employees.

Table 3 – Improper Payments for Institutional Worker Supervision Pay (IWSP)
For the Period from July 2012 through May 2013

	CSP-Sacramento			CCHCS-Sacramento			Total		
	Number of Employees	Number of Payments	Amount Paid	Number of Employees	Number of Payments	Amount Paid	Number of Employees	Number of Payments	Amount Paid
Total IWSP payments	30	278	\$ 58,465	10	98	\$ 27,530	40	376	\$ 85,995
Improper IWSP payments:									
No documentation to support employee supervised any inmates	29	237	50,675	4	25	8,125	33 ^a	262	58,800
Employee did not supervise at least two inmates	1	1	190	4	29	5,645	5	30	5,835
Total		238	\$ 50,865		54	\$ 13,770		292	\$ 64,635
As a percentage of total IWSP payment		86%	87%		55%	50%		78%	75%

Source: Our analysis of data obtained from the state payroll system.

^a Two employees also received payments for IWSP when they supervised only one inmate in some pay periods. In addition, three employees received payments after personnel office staff added IWSP into the state payroll system during their appointment without initial IWSP request documentation and appropriate authorization.

44 (or 88%) of 50 employees receiving IWSP lacked proper documentation and appropriate authorization

According to the Prison Agencies' procedures for IWSP transactions, the personnel office staff would process a personnel action request and add IWSP into the state payroll system after obtaining initial IWSP request documentation and appropriate authorization from management. The *Institutional Worker Supervisory Pay Program Operational Procedure* section VI states that the initial IWSP request documentation contains a medical examination report, duty statement, organization chart, and inmate duty statement.

Our review revealed that for the period from July 2010 through June 2013, the Prison Agencies made payments to 50 employees for IWSP. However, the Prison Agencies could not provide documentation for 44 (or 88%) of the 50 employees to support initial IWSP request and appropriate authorization from management. We are concerned that the Prison Agencies lack adequate controls to ensure that only employees who meet the initial eligibility requirements receive payment for IWSP. For example, when we inquired about this issue, the personnel office staff revealed that three of the 44 employees should not have been paid. These employees received payments after the personnel office staff processed the personnel action request and added IWSP into the state payroll system at the time of the employees' appointment, without the initial IWSP request package and authorization from CCHCS-Sacramento management. One of the three employees was appointed to a classification that is not eligible to receive the pay per *California State Civil Service Pay Scales* section 14, Pay Differential 67. Accordingly, the Prison Agencies improperly paid these three employees approximately \$6,095 (see Table 3). During our review, the Prison Agencies indicated that they initiated the process of recovering these improper payments. We have not verified this process.

Significant control deficiencies over Prison Agencies' processing of IWSP

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. If controls are maintained and reinforced through effective monitoring systems and processes, reasonable assurances can be given that measures adopted by state agencies to check the accuracy and reliability of payroll accounting data and encourage adherence to prescribed policies are being followed. However, our review of payments for IWSP revealed significant control deficiencies that leave the Prison Agencies at risk of additional improper payments if not mitigated. Specifically, our review revealed that:

- Personnel office staff processed personnel action requests and added IWSP into the state payroll system without supporting documentation and appropriate authorization. For example, as discussed in the previous section, three employees received improper

payments for IWSP because personnel office staff keyed in the pay into the state payroll system without initial IWSP request documentation and authorization from CCHCS-Sacramento management. The number of improper payments may be even higher considering that the Prison Agencies could not provide the supporting documentation and appropriate authorization for 88% of 50 employees receiving IWSP.

- The Prison Agencies did not adhere to the *Institutional Worker Supervisory Pay Program Operational Procedure* to ensure monthly payments for IWSP comply with collective bargaining agreements and *California State Civil Service Pay Scales* section 14, Pay Differential 67. For example, the personnel office staff did not review the employee's timesheet, monthly IWSP certification form, and inmate work supervisor's time log to confirm eligibility requirements have been met to receive the pay. In other instances, timesheets were missing from the personnel office files.
- Some Prison Agencies employees performed questionable practices in completing the required documentation to support monthly payments for IWSP. For example, two employees claimed to supervise one inmate on similar dates based on the inmate work supervisor's time logs they submitted. These employees also signed inmate work supervisor's time logs when they were absent from work. In other cases, the inmate work supervisor's time log appears signed by an individual other than the supervising employee.
- The Prison Agencies did not provide sufficient oversight over their processing of IWSP transactions to ensure that existing policies and procedures are implemented and only authorized payments for IWSP are processed.

CDCR's *Institutional Worker Supervisory Pay Program Operational Procedure* section IV states, in part:

The Warden/Superintendent has overall responsibility and oversight for the implementation of this OP.

Each employee participating in IWSP will:

- Review and sign inmate/youthful offender timesheets . . .
- Ensure the required IWSP Certification from . . . and CDCR 1697(s) . . . are included with the submission of the monthly CDCR 998-A/Std. 634 . . .

Each supervisor/manager will:

- Review the employee's CDCR 998-A/Std. 634 . . .
- Review CDCR 1697 to ensure the employee meets the criteria
- Complete a Monthly IWSP Certification form for eligible employees each pay period
- Submit the completed Monthly IWSP Certification form with the eligible employee's CDCR 998-A/Std. 634 and CDCR 1697(s) to the Institution/Facility Personnel Office by the third work day of the pay period . . .

- Immediately notify the Institution/Facility Personnel Office when the employee is no longer eligible for IWSP . . .

The Institution/Facility Personnel Office will:

- Ensure the employee has met and maintains initial and eligibility requirements to receive IWSP
- Review the employee's CDCR 998-A/Std. 634, Monthly IWSP Certification form, and CDCR 1697(s) to confirm eligibility requirements have been met. Upon verification, the Institution/Facility Personnel Office will sign the IWSP Certification form
- Notify the employee in writing, by the fifth work day of each month . . . when he/she did not meet the IWSP criteria for the previous pay period and/or when the employee will no longer be assigned inmate/youthful offender supervision
- Notify the employee an IWSP overpayment will be collected in accordance with the appropriate MOU . . .
- Retain all supporting documentation . . .

Recommendation

The Prison Agencies should conduct a review of payments for IWSP during the past three years to ensure that the payments comply with collective bargaining agreements and state policy. If the Prison Agencies made overpayments to employees, they should seek reimbursement through an agreed-upon collection method in accordance with California Government Code section 19838.

To prevent improper payments for IWSP from recurring, the Prison Agencies should do the following:

- Implement existing procedures included in *Institutional Worker Supervisory Pay Program Operational Procedure* regarding IWSP transactions. The Prison Agencies should conduct ongoing monitoring of controls to ensure they are implemented and operating effectively.
- Provide adequate oversight to ensure that personnel office staff process only authorized payments for IWSP that comply with collective bargaining agreements and state policy.
- Provide training to managers, supervisors, and staff who might be involved in IWSP payment transactions to ensure that they understand the requirements under collective bargaining agreements and state policy regarding IWSP.

**FINDING 3—
The Prison Agencies
lacked proper
documentation for 77%
of employees who
received out-of-class
compensation; overpaid
employees for out-of-
class assignments**

The Prison Agencies lacked proper documentation to support 95 (or 77%) of the 123 employees who received out-of-class compensation for the period from July 2010 through June 2013. Further, 16 employees exceeded limits for out-of-class assignments set by collective bargaining agreements and state policy, resulting in a total overpayment of approximately \$17,200. In addition, two managerial employees received approximately \$2,600 in out-of-class compensation prior to the 91st day of their assignments, in violation of state policy.

95 (or 77%) of 123 employees who received out-of-class compensation lacked proper supporting documentation

Our review revealed that for the period from July 2010 through June 2013, the Prison Agencies made payments to 123 employees for out-of-class compensation; however, they did not maintain any supporting documentation for 49 employees. Of those with documentation, we selected 50 employees with a total of 67 out-of-class assignments for further review. Of the 67 assignments, 46 lacked sufficient documentation for an approving official to properly review and approve the assignment. Specifically, 20 assignments had no documentation on file for the original assignment or extension; and 26 assignments had partial documentation (eight with no duty statements or written justification, five with duty statements but no written justification, and 13 with written justification but no duty statements). Of the 26 assignments, 21 also had no organization chart. In addition, 32 of the 67 assignments selected for further review had original assignments and/or assignment extensions that were not approved in advance of the start date. Overall, 95 (or 77%) of the 123 employees who received out-of-class compensation lacked proper documentation.

CDCR's *Personnel Operations Manual* section 702 states, in part:

. . . The program supervisor/manager is responsible for requesting approval for OOC assignments by submitting an "Out-of-Class Checklist/Approval" package to the local personnel office (headquarters or institution) for review/approval. . . . The Supervisor/Manager must NOT assign OOC duties to the employee until the request is approved. . .

. . . The OOC Request Package (for original and extension) must include:

1. Out-of-Class Checklist/Approval . . .
2. A current duty statement for the position . . .
3. A current organization chart for the position.
4. A copy of the memo assigning the employee the OOC. For supervisory, confidential and non-managerial excluded employees, the memo must be dated in advance of the OOC assignment. . . .

. . . The OOC package must be submitted to the local personnel office (headquarters or institution) in advance with sufficient time for review and approval PRIOR to the proposed effective date. . . .

. . . . The delegated OOC approval authority for the Department's various personnel offices is summarized below.

. . . Institution Personnel Office (adult/juvenile) staffed with an IPO and Adult Paroles Personnel Liaison (headquarters) office:

- Review/approve the first 60 days of OOC for employees and positions not requiring prior DPA approval.
- Review/approve for submission to the OPS requests for extension(s) beyond 60 days for the employee and/or position. If approved at this level, the analyst/IPO must forward the OOC package to the OPS for review/approval and submission to DPA if required.
- Enhanced delegation Institutions may review/approve extensions for employees and positions up to 120 days. Extensions beyond 120 days must be forwarded to OPS for review/approval and submission to DPA if required.
- Review/approve for submission to the OPS requests for new OOC and exceptions requiring prior DPA approval. If approved at this level, the analyst/IPO must forward the OOC package to the OPS for review/approval and submission to DPA.

Further, *Personnel Operations Manual* section 703 states, in part:

Listed below are specific areas that a PS must review before issuing out of class compensation. . . . Upon receipt of an approved OOC the PS will . . . Review the OOC package to ensure the following components are attached.

- Properly completed and authorized OOC Checklist/Approval (CDC 1821).
- Organization chart.
- Duty Statement for the OOC position.

16 (or 18%) of 88 represented employees receiving out-of-class compensation exceeded limits set by collective bargaining agreements, resulting in overpayments

We performed further review to determine whether employees received out-of-class compensation in excess of the number of days allowed by their collective bargaining agreements or state policy. Of the 123 employees who received out-of-class compensation between July 2010 and June 2013, 35 were appointed to classifications excluded from collective bargaining and 88 to classifications represented by collective bargaining units. Our review of the 35 excluded employees did not find any significant errors. However, our review of the 88 represented employees revealed that 21 employees had out-of-class assignments that exceeded 120 days. Of the 21 employees, eight were in collective bargaining agreements that restrict an employee's out-of-class assignment to 120 days and eight were in agreements that allow assignment beyond 120 days but the Prison Agencies did not have approval from CalHR, in violation of collective bargaining agreements

and state and Prison Agencies policies. Accordingly, the Prison Agencies overpaid 16 employees by approximately \$17,200 for out-of-class assignments exceeding 120 days.

The five remaining employees had memoranda requesting out-of-class assignments beyond 120 days that were approved by CalHR. However, we found that the Prison Agencies received CalHR's approval after they had already paid the employees for out-of-class assignment extensions. The memoranda also indicated that the assignments beyond 120 days for these employees were erroneously approved by the Prison Agencies due to oversight by the personnel analyst.

CalHR's Policy Memo (formerly called PML) #2007-026 reminds departments to refer to the collective bargaining agreements regarding out-of-class provisions for represented employees. The memo also stated that there are no exceptions to request extensions of out-of-class assignments beyond the provisions of collective bargaining agreements.

The collective bargaining agreements between the State and units 1, 4, 15, and 17 restrict represented employees up to 120 calendar days of out-of-class work in any 12 consecutive calendar months. The collective bargaining agreements between the State and units 6, 12, 16, and 18 include the following provisions:

Unit	Section	Collective bargaining agreement states, in part...
6	9.07.B	. . . If the assignment to a higher classification is not terminated before it exceeds one hundred twenty (120) consecutive calendar days, the employee shall be entitled to receive the difference between his/her salary and the salary of the higher class at the same step the employee would receive if the employee were to be promoted to that class, for that period in excess of one hundred twenty (120) consecutive calendar days. . . .
12	18.2.A.5	No employee may be assigned for more than one year of out-of-classification for any one assignment.
16	12.11.A An employee may be assigned to work out of class for more than 120 consecutive days only with approval of the Department of Personnel Administration (DPA). . . .
18	9.6.B.3	. . . when an employee is assigned out-of-class work, he/she shall receive the rate of pay he/she would have received pursuant to 2 Cal. Code Regs 599.673, 599.674 or 599.676 if appointed to the higher classification for the duration of the assignment not to exceed one (1) year.

However, CDCR's *Operations Manual* section 31060.6.3.3 states, in part:

. . . . An employee may be assigned out-of-class work for more than 120 days if the additional out-of-class work is required to meet a need that cannot be met through other administrative or civil service alternatives. **Prior approval from DPA is required.** . . .

The Prison Agencies made improper out-of-class compensation to managerial employees

Of the 123 employees who received out-of-class compensation, six were appointed to managerial classifications. Our review of payroll records revealed that two of the six managerial employees received out-of-class compensation that did not conform to *California State Civil Service Pay Scales* section 14, Pay Differential 101. Specifically, the two managerial employees received approximately \$2,600 in out-of-class compensation prior to the 91st day of their assignments. When we discussed this issue with CSP-Sacramento management, they stated that CSP-Sacramento received a memorandum from CalHR to support these payments. However, our review revealed that the CalHR memorandum grants a 90-day extension for out-of-class pay to individuals listed in the memorandum but it does not allow compensation for the first 90 days of assignment. Further, the memorandum does not include the two management employees. Two managerial employees did not have any

out-of-class documentation on file; therefore, we could not determine if the employees received compensation prior to the 91st day.

CalHR's *California State Civil Service Pay Scales* section 14, Pay Differential 101 states, in part:

Managerial out-of-class compensation will commence on the 91st day.
Compensation shall not exceed nine months.

Significant control deficiencies over Prison Agencies' processing of out-of-class compensation

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. If controls are maintained and reinforced through effective monitoring systems and processes, reasonable assurances can be given that measures adopted by state agencies to check the accuracy and reliability of payroll accounting data and encourage adherence to prescribed policies are being followed. However, our review of out-of-class compensation revealed significant control deficiencies that leave the Prison Agencies at risk of additional improper payments and practices if not mitigated. Specifically, our review revealed that:

- Although CDCR's *Operations Manual* and *Personnel Operations Manual* include policies and procedures for processing out-of-class assignment and compensation, the Prison Agencies failed to implement them consistently. For example, the Prison Agencies could not provide documentation to support proper justification, review, and authorization of several out-of-class assignments and compensation. In addition, personnel office staff processed some of the out-of-class compensation for assignments that exceeded limits set by collective bargaining agreements or without approval from CalHR.

- The Prison Agencies did not provide sufficient oversight to ensure processing of out-of-class compensation complies with collective bargaining agreements and state policy. For example, due to poor tracking of assignments by the responsible personnel office staff, the Prison Agencies were not aware that some employees exceeded the 120-day limit.

Recommendation

The Prison Agencies should conduct a review of out-of-class compensation during the past three years to ensure that they comply with collective bargaining agreements and state policy. If the Prison Agencies made overpayments to employees, they should seek reimbursement through an agreed-upon collection method in accordance with California Government Code section 19838.

To prevent improper out-of-class compensation from recurring, the Prison Agencies should do the following:

- Implement existing policies and procedures prescribed by CDCR's *Operations Manual* and *Personnel Operations Manual* regarding out-of-class assignments and compensation. The Prison Agencies should conduct ongoing monitoring of controls to ensure they are consistently implemented and operating effectively.
- Provide adequate oversight to ensure that personnel office staff processes only authorized out-of-class compensation that complies with collective bargaining agreements and state policy.

FINDING 4— California State Prison – Sacramento overpaid employees for uniform allowance

Pursuant to the collective bargaining agreement between the State and unit 6, employees required to wear a uniform and uniform accessories receive a maximum uniform allowance of \$530 per year, to be paid annually.

Our review revealed that between July 2010 and June 2013, CSP-Sacramento paid over 1,000 employees for uniform allowance. We selected 35 employees for review and found that CSP-Sacramento paid six (or 17%) employees more than the allowable amount per year. Payments for uniform allowance exceeding the amount set by the collective bargaining agreement totaled \$2,960. Considering that our review was performed only on limited selections, we are concerned that the number of overpayments for uniform allowance may be even higher.

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls. However, CSP-Sacramento lacked an adequate system of authorization and record-keeping procedures to provide effective accounting control over payments for uniform allowance. It could not provide adequate documentation to support the additional payments to the six employees for uniform allowance. We also found no indication that adequate oversight was provided to ensure payments do not exceed the limit set by the collective bargaining agreement. When we discussed this issue with the personnel office staff at CSP-Sacramento, she stated

that the overpayment probably occurred because the staff responsible for processing the payments for uniform allowance failed to verify that payments had already been made to the employees.

Recommendation

CSP-Sacramento should conduct a review of payments for uniform allowance during the past three years to ensure that the payments comply with collective bargaining agreements. If CSP-Sacramento made overpayments to employees, it should seek reimbursement through an agreed-upon collection method in accordance with California Government Code section 19838.

To prevent improper payments for uniform allowance from recurring, CSP-Sacramento should do the following:

- Establish adequate internal controls to ensure payments for uniform allowance comply with collective bargaining agreements. These controls should require personnel office staff to verify that payment does not exceed the amount set by collective bargaining agreements. The staff should also obtain documentation supporting approval for payment. The documentation should include appropriate authorizing signatures.
- Provide adequate oversight to ensure that personnel office staff process only authorized payments for uniform allowance.

**FINDING 5—
The Prison Agencies
made payments for
premium pay to
employees who lacked
proper documentation
or were not eligible to
receive the pay.**

In addition to IWSP and out-of-class compensation, the Prison Agencies issued 46 other types of premium pay for the period from June 2010 through July 2013. We selected 15 employees who were issued five of the 46 types of premium pay for review. Our review revealed that six of the 15 employees lacked proper supporting documentation or were not eligible to receive the premium pay. Of the six employees, three received physical fitness incentive pay totaling \$2,730 but did not have the annual physician's certification or the certification was not properly completed or signed; one received educational incentive pay of \$4,860 but did not meet the qualifying degree or semester units to receive the pay; one received phlebotomy certification pay of \$875 but the Prison Agencies could not provide the employee's duty statement that includes drawing blood as an identified function; and one received senior officer pay of \$2,677 but had a senior peace officer pay worksheet that was incomplete and unverified by personnel office staff. Overall, payments for premium pay to employees who lacked proper documentation or were not eligible to receive the pay totaled approximately \$11,142.

CalHR's *California State Civil Service Pay Scales* section 14, Pay Differential 108 states, in part:

. . . eligible rank-and-file employees as defined above must . . . have an annual physician's certification of having passed the annual physical fitness exam. . . .

California State Civil Service Pay Scales section 14, Pay Differential 44 states, in part:

Correctional Officers . . . who have attained an associate of arts, bachelors degree, a higher degree, or sixty (60) semester units, or the equivalent quarter units from an accredited community college or university, shall be eligible for the Educational Incentive Pay. . . .

California State Civil Service Pay Scales section 14, Pay Differential 296 states, in part:

. . . An employee is eligible based on:

1. Possession of a California State issued phlebotomy certification as a Certified Phlebotomy Technician I or Certified Phlebotomy Technician II; and
2. The drawing of blood as an identified function in the duty statement for the employee's position.

CDCR's *Personnel Operations Manual* section 707 requires completion of the senior peace office pay worksheet to identify when an employee becomes eligible to receive the pay. The personnel specialist will review the calculation to ensure it is accurate.

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls, including a system of authorization and recordkeeping procedures over expenditures, and an effective system of internal review. State agencies are also responsible for ensuring that these controls are functioning as prescribed. However, our review of the premium pay revealed significant control deficiencies that leave the Prison Agencies at risk of additional improper payments and practices if not mitigated. Specifically, our review revealed that although the *Operations Manual* and *Personnel Operations Manual* include policies and procedures for processing premium pay, the Prison Agencies failed to implement them consistently. For example, the personnel analyst did not verify that the employee meets the requirements for premium pay. Meanwhile, the personnel specialists did not ensure that payments are processed only after receiving the required documentation verified by personnel analyst.

Recommendation

The Prison Agencies should conduct a review of premium pay to ensure that payments comply with state and Prison Agencies policies. If the Prison Agencies made overpayments to employees, they should seek reimbursement through an agreed-upon collection method in accordance with California Government Code section 19838.

To prevent improper payments for premium pay from recurring, the Prison Agencies should do the following:

- Implement existing policies and procedures prescribed by CDCR's *Operations Manual* and *Personnel Operations Manual* regarding premium pay. The Prison Agencies should conduct ongoing monitoring of controls to ensure they are consistently implemented and operating effectively.

- Provide adequate oversight to ensure that personnel office staff processes only premium pay that complies with state and Prison Agencies policies.

**FINDING 6—
The Prison Agencies
erroneously overstated
employee holiday credit
balances**

Pursuant to California Government Code section 19853 and collective bargaining agreements, employees may earn up to eight hours of holiday credit when a holiday falls on their regularly scheduled day off or when they work on a holiday.

Our analysis of the data from the State's leave accounting system indicates that there are about 2,500 employees who received holiday credits between July 2010 and June 2013. Of this total, we selected 19 employees for review of holiday credit transactions. Our review revealed that 10 (or 53%) of the 19 employees had overstated holiday credit balances. Specifically, six employees received 64 hours in months that had no holidays; three received 64 hours more than they were entitled; and one received 24 hours instead of being charged for time used. The estimated cost of overstatement in holiday credits totaled \$6,402. In addition, four of the 19 employees were credited a total of 139 hours of holiday credit that could not be verified because the Prison Agencies could not provide the supporting documentation. One of the four employees received 83 hours in a single month. Considering that our review was performed only on limited selections, we are concerned that the number of misstatements in holiday credit balances may be even higher.

California Government Code sections 13402 and 13403 mandated state agencies to establish and maintain internal accounting and administrative controls. If controls are maintained and reinforced through effective monitoring systems and processes, reasonable assurances can be given that measures adopted by state agencies to check the accuracy and reliability of payroll accounting data are being followed. However, significant overstatements found in the leave accounting system for employees' holiday credit balances indicate the lack of adequate controls to ensure accuracy of data and adequate documentation to support transactions.

Recommendation

The Prison Agencies should conduct a review of the leave accounting system during the past three years to ensure that employees' holiday credit accruals comply with collective bargaining agreements and state law. The Prison Agencies should adjust employees' balances in the leave accounting system to correct any misstatements in recording holiday credit transactions.

To prevent misstatements in recording holiday credit transactions in the accounting system from recurring, the Prison Agencies should do the following:

- Provide training to personnel office staff involved in keying transactions into the leave accounting system to ensure that they understand the requirements under collective bargaining agreements and state law regarding holiday credits.

- Provide adequate oversight to ensure that personnel office staff accurately record leave holiday credit transactions.

Attachment A—
California State Prison – Sacramento’s
Response to Draft Review Report

**DIVISION OF ADULT INSTITUTIONS
CALIFORNIA STATE PRISON — SACRAMENTO**

P.O. Box 290001
Represe, CA 95671-0001
(916) 985-8610



July 23, 2014

Mr. Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

The California State Prison, Sacramento (SAC) submits this letter in response to the State Controller's Office (SCO) draft audit report titled "California State Prison — Sacramento California Correctional Health Care Services Payroll Process Review, July 1, 2010 through June 30, 2013."

The draft report outlines six areas of concern relative to payroll process at SAC and the California Correctional Health Care Services. SAC agrees that it can make improvements to strengthen internal controls. Toward this end, SAC has implemented process changes and increased oversight to improve accuracy, organization, and record retention. Specifically, to prevent improper payments, SAC has developed checklists and tracking logs to verify that staff complete all required documentation and receive proper management approval.

In addition, SAC's personnel management performs weekly reviews of these checklists and tracking logs to ensure compliance with policies, state laws and regulations, and collective bargaining agreements. Personnel management conducts monthly staff meetings to address possible concerns. SAC has also begun reviewing payroll transactions completed in the last three years to identify improper payments and will establish accounts receivables for any overpayments it identifies. Further, SAC is providing additional staff training on payroll practices to ensure compliance with both state laws and regulations, and requirements under collective bargaining agreements. Training components will continue to be conducted at strategic times during the year to ensure ongoing compliance. Going forward, SAC will work toward continued operational improvements and gained efficiencies.

To further strengthen internal controls and increase oversight, the California Department of Corrections and Rehabilitation's Office of Personnel Services' recently established its Field Liaison Team to conduct peer reviews and to provide training to institutions and

Mr. Andrew Finlayson
Page 2

facilities statewide. The Field Liaison Team will provide SAC with additional training and support to ensure compliance with civil service laws and rules.

We would like to thank the SCO for their work on this report and will address the specific recommendations in a corrective action plan at the 60-day, six-month, and one-year intervals. Should you have any questions, please contact me at (916) 985-8610, extension 3000.

Sincerely,



JEFF MACOMBER
Warden (A)
California State Prison, Sacramento

cc: Martin Hoshino, Undersecretary, Operations
Diana Toche, Undersecretary, Healthcare Services and Undersecretary (A),
Administration and Offender Services
Michael Stainer, Director, Division of Adult Institutions
Kelly Harrington, Deputy Director, Division of Adult Institutions
Ralph Diaz, Associate Director, Division of Adult Institutions
Scott Carney, Director, Division of Administrative Services
Bryan Beyer, Director, Division of Internal Oversight and Research
Shama Chaiken, Chief Executive Officer, California State Prison, Sacramento
Lisa Lassetter, Deputy Director, Human Resources
Lori Zamora, Deputy Director, Office of Audits and Court Compliance
Linda Wong, External Audits Manager, Office of Audits and Court Compliance

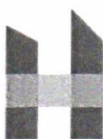
Attachment B—
California Correctional Health Care Services’
Response to Draft Review Report

July 18, 2014

Mr. Jeffrey V. Brownfield, Chief
Division of Audits
California State Controller
P. O. Box 942850
Sacramento, CA 94250-5872

Dear Mr. Brownfield:

This letter is submitted on behalf of California State Prison – Sacramento (CSP-SAC) and California Correctional Health Care Services (CCHCS) in response to the California State Controller (SCO) draft audit report titled "Payroll Process Review." We sincerely appreciate your review of the payroll processes at CSP-SAC in identifying areas for improvement.



We continually strive for excellence in our business and clinical operations and always welcome the excellent work done by agencies, such as yours, to provide us with information regarding where we can further improve our practices.

We concur with the basic factual findings relating to the activities involving CSP-SAC personnel as set forth in the audit report. It should be noted that CSP-SAC receives its payroll and personnel support from the California Department of Corrections and Rehabilitation's (CDCR), Institution Personnel Office at CSP-SAC. As such, we will continue to work collaboratively with CDCR to implement the recommendations in the report and assess the need to develop policy and/or procedural changes to prevent this from happening in the future.

Your audit reported that CCHCS personnel at CSP-SAC inappropriately authorized payouts for employee vacation, personal leave, and holiday credits in 2010 and 2011. We concur with your recommendation that managers, supervisors, and staff who might be involved in leave buy-back transactions need to be apprised of the requirements under collective bargaining agreements and state law regarding leave buy-backs.

I became aware of these incidents prior to your audit and immediately notified all Health Care Services CSP-SAC staff this practice would not be authorized under my leadership. CCHCS Headquarters' management were advised and notified management at all of our prison facilities that leave buy-backs, without appropriate approvals, were prohibited. To further emphasize this we continue to provide training to our staff involved in approving or processing leave buy-back transactions.

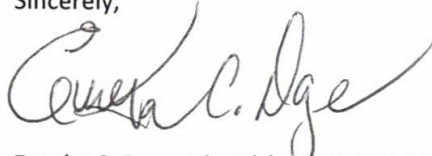
Mr. Jeffrey V. Brownfield, Chief
July 18, 2014
Page 2

Your report cited that five health care employees inappropriately received inmate worker supervision pay: two due to improperly keyed payroll transactions and three who did not fulfill the requirements to receive the pay (insufficient number of supervised inmates). For four of these five staff, the CSP-SAC Institution Personnel Office was requested immediately after the findings were verified to begin an accounts receivable for these employees where the employees repay this money over several months based on the Provisions of Government Code 19838. Since one staff person has separated from the facility, we are looking into noticing the employee and/or the Franchise Tax Board for collection efforts. In addition, we will be providing training to our staff involved in inmate worker supervision pay to ensure they understand the requirements under state policy and collective bargaining agreements.

Finally, your audit reported inconsistencies with approvals and payments for out-of-class compensation for employees, as well as inconsistencies in granting premium pay. We agree with the need to conduct a review of these transactions to ensure they comply with state policy and collective bargaining agreements, and will seek reimbursement where appropriate.

We would like to thank the California State Controller for the opportunity to respond to the draft report.

Sincerely,



Eureka C. Daye, Ph.D.(c), MPH, MA, CCHP
Regional Health Care Executive, Region I
Health Care Operations
California Correctional Health Care Services

cc: Andy Finlayson, Bureau Chief, State Agency Audits Bureau, Division of Audits, SCO
Jeff Macomber, Warden (Acting), CSP-SAC, CDCR
Shama Chaiken, Ph.D., Chief Executive Officer (Acting), CSP-SAC

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>